

INDIANA EAST-WEST TOLL ROAD PROJECT

ANNUAL REPORT
June 30, 2004 and 2003

INDIANA EAST-WEST TOLL ROAD PROJECT
Indianapolis, Indiana

ANNUAL REPORT
June 30, 2004 and 2003

CONTENTS

MANAGEMENT DISCUSSION AND ANALYSIS	1
REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS	9
FINANCIAL STATEMENTS	
STATEMENTS OF NET ASSETS	11
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	12
STATEMENTS OF CASH FLOWS	13
NOTES TO FINANCIAL STATEMENTS	14
REQUIRED SUPPLEMENTAL INFORMATION	
CONDITION RATING OF THE TOLL ROAD PROJECT'S HIGHWAYS AND BRIDGES.....	28
BREAKDOWN OF REVENUES	29
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	30

INDIANA EAST-WEST TOLL ROAD PROJECT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

This section of the Indiana East – West Toll Road Project financial report provides a discussion and analysis of financial performance during the fiscal year ended June 30, 2004. Please read it in conjunction with the Report of Independent Auditors and the financial statements, which follow this section.

Reporting Entity

The Indiana East-West Toll Road Project (Toll Road Project) is the result of a lease agreement between the Indiana Transportation Finance Authority (ITFA) and the Indiana Department of Transportation (INDOT) to finance and operate the Indiana East-West Toll Road as defined in the lease agreement between the two parties.

The adoption of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* presented an opportunity to examine the organizational structure and reporting structure of the activities conducted within the agreement between ITFA and INDOT. As a result of that examination, the reporting entity for the Toll Road was reclassified from a component unit of the ITFA to a Project of the ITFA and INDOT. ITFA and INDOT have specified roles in the Project as outlined in the agreement. Based on the reclassification of the activities of the Toll Road Project, the accumulated excess of revenues over expenses, defined in prior financial statements as net assets, are owned by ITFA. Therefore, the Toll Road Project Statement of Net Assets has a liability recorded for Assets held on behalf of ITFA. On an annual basis, any excess of revenues over expenses are reflected as a Transfer to assets held on behalf of ITFA.

Financial Highlights

- The change in net assets before Transfer to assets held on behalf of ITFA was approximately \$18.4 million.
- Toll revenue reached a historical high level of \$85.0 million in 2004, increasing from \$82.0 million in 2003.
- Investment revenue decreased an additional \$1.2 million in 2004. This decrease followed a \$2.2 million decrease in 2003 and represents an 86% decrease from investment revenue earned in 2001.
- Net cash of approximately \$35.9 million was generated from the operating activities of the Toll Road.

INDIANA EAST-WEST TOLL ROAD PROJECT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

Overview of the Financial Statements

The Indiana Transportation Finance Authority (ITFA) has entered into a lease agreement with the Indiana Department of Transportation (INDOT), which requires INDOT to operate and maintain the Toll Road in an efficient and economical manner. INDOT is further required to manage and operate the Toll Road as a unit separate from any other district or division of INDOT. INDOT fulfilled this requirement by establishing the Toll Road District (District). The District has a fiduciary responsibility for the assets of the Toll Road Project. The District is responsible for ensuring that the assets reported in the financial statements are used for their intended purposes.

Statement of Net Assets: The Statement of Net Assets represents the financial position of the Toll Road Project, or the financial resources available to the Toll Road Project as well as the liabilities related to those resources, on the last day of the fiscal year. As noted in the reporting entity and financial highlights sections above, the Toll Road does not have net assets. Any excess of total assets over current liabilities and long-term debt is included in a liability called Assets held on behalf of ITFA.

The Statement of Net Assets details the financial resources that the Toll Road Project has to meet its operating needs as well as the liquidity of those resources. To assess the overall health of the District, additional factors should be considered, such as the breakdown between major revenue and expense components, the activities that provide liquid resources to the Toll Road Project, the condition of the Toll Road Project's bridges and roads, and how those figures compare from year to year.

Statement of Revenues, Expenses and Changes in Net Assets: This financial statement reflects the activities of the Toll Road Project from the first day of the fiscal year through the last day of the fiscal year. This statement reflects what revenues were generated and what expenses were incurred to generate those revenues. As noted in the reporting entity and financial highlights sections above, the excess of revenues over expenses, formerly known as net income is reflected as a Transfer to assets held on behalf of ITFA. Looked at over time, the change in the Assets held on behalf of ITFA is an indicator of whether the Toll Road Project's financial health is improving or deteriorating, respectively.

Statement of Cash Flows: The Statement of Cash Flows reflects the cash provided to the Toll Road Project from its activities: operating activities, investing activities and financing activities. The ability to generate net cash flow from operating activities is an indicator of financial health. The cash and cash equivalents at the end of the year represents the ability of the District to weather difficult economic times and to fund needed projects in future years. The District breaks cash and cash equivalents into restricted cash, which is cash and short-term investments set aside for future capital projects, transportation grants or bond payments; and unrestricted cash, which is cash and short-term investments that cover emergencies, operating cash requirements, or could be committed in the future to capital projects.

INDIANA EAST-WEST TOLL ROAD PROJECT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

The accompanying notes to financial statements provide additional information related to the activities of the Toll Road Project.

Financial Analysis of the Toll Road Project

Statement of Net Assets: The Statement of Net Assets details the total assets and total liabilities of the Toll Road Project. The majority of assets are held in cash and investments and capital assets. The majority of liabilities are held as bonds payable and assets held on behalf of the ITFA. (See Table 1)

The largest segment of capital assets is infrastructure (approximately \$184 million). With the adoption of GASB No. 34 in 2002, the District no longer capitalizes expenditures that are made for infrastructure renovations; therefore, the value of these capital assets will not change unless new infrastructure is created. During 2004, the Toll Road Project commenced a multi-year project to enlarge the Road from two lanes to three lanes. This project creates new infrastructure and expenditures on this project, approximately \$9 million in 2004, will be capitalized as incurred.

Capital assets will fluctuate for expenditures for non-infrastructure property being depreciated, such as buildings, equipment and vehicles. In 2004, the Toll Road Project capitalized approximately \$8.4 million for property being depreciated. In addition, the Project capitalized approximately \$8 million for construction in progress on building and infrastructure projects.

As noted above, the Toll Road Project reflects the accumulated excess of revenues over expenses as a liability called Assets held on behalf of ITFA. This liability increased by approximately \$18.4 million during 2004 to a balance of \$231.2 million at June 30, 2004. A portion of the assets held on behalf of ITFA is restricted for construction, transportation improvement grants and debt service.

INDIANA EAST-WEST TOLL ROAD PROJECT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

Table 1
Statement of Net Assets (in millions of dollars)

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash and cash equivalents	\$ 34.4	\$ 38.4
Investments	73.1	64.8
Restricted cash	78.8	91.5
Other assets	8.9	8.7
Capital assets	<u>259.3</u>	<u>241.8</u>
Total assets	<u>\$ 454.5</u>	<u>\$ 445.2</u>
LIABILITIES AND NETASSETS		
Operating liabilities	\$ 10.0	\$ 9.0
Liabilities payable from restricted assets	4.3	4.6
Current and long-term portion of revenue bonds payable	<u>209.0</u>	<u>218.8</u>
Total operating liabilities	223.3	232.4
Assets held on behalf of ITFA		
Invested in capital assets net of related debt	51.6	24.6
Restricted	164.1	177.8
Unrestricted	<u>15.5</u>	<u>10.4</u>
Total assets held on behalf of ITFA	<u>231.2</u>	<u>212.8</u>
Total liabilities	454.5	445.2
Net assets	<u>-</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 454.5</u>	<u>\$ 445.2</u>

INDIANA EAST-WEST TOLL ROAD PROJECT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

Statement of Revenues, Expenses and Changes in Net Assets: The statement of revenue, expenses and changes in net assets details the operating and non-operating revenues and expenses of the Toll Road Project (see Table 2). The change in net assets before the transfer to assets held on behalf of ITFA was approximately \$18.4 million.

Tolls are the largest source of revenue. In 2004, toll revenue was at a historical high level of \$85 million, a \$3 million (3.6%) increase from the prior year and .2% increase from the previous historical high set in fiscal year 2000. Concession revenue is received through rents from the restaurants and fuel providers that lease five pairs of travel plazas. Concession revenue is significant as it contributed 7.6% of total operating revenue. Concession revenue increased by approximately \$500,000 during 2004; this increase is consistent with the increased traffic flow along the road.

Total operating expenses decreased by approximately \$12.8 million. A substantial portion of this decrease relates to the required presentation of the costs to repair and renovate aging infrastructure. The Toll Road Project, under the modified approach to reporting infrastructure, is required to expense the cost of repairing and renovating infrastructure assets in lieu of depreciating these assets. The decrease in these expenses was approximately \$13.7 million (35.3%). Excluding the cost of repairing and renovating infrastructure assets, other operating expenses, approximately \$35.3 million and \$34.4 million for 2004 and 2003, respectively, increased by approximately \$903,000 or 2.62%. Comprehensive insurance expense increase of approximately \$395,000 (44%) represents a significant portion of this increase.

As stated above, the change in major expense for repairs and renovations from 2003 to 2004 is significant. As repair and renovation projects vary from year to year, this component of expense will also vary. It is projected that the cost of infrastructure projects for 2005 will be approximately \$30.2 million.

Non-operating revenues from investment revenues decreased primarily due to the continued drop in interest rates. Investment revenue for 2004 decreased approximately \$1.2 million from 2003 and approximately \$2.2 million from 2002.

INDIANA EAST-WEST TOLL ROAD PROJECT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

Table 2
Changes in Net Assets (in millions of dollars)

	<u>2004</u>	<u>2003</u>
Operating revenues		
Tolls	\$ 85.0	\$ 82.0
Concession revenues	7.0	6.5
Other revenues	<u>.7</u>	<u>0.5</u>
Total operating revenues	92.7	89.0
Operating expenses		
General operating expenses	32.2	31.3
Major expense for repairs and renovations	25.1	38.7
Depreciation expense	<u>3.1</u>	<u>3.1</u>
Total operating expenses	<u>60.4</u>	<u>73.1</u>
Operating income	32.3	15.9
Other financing sources (uses)		
Investment revenue	1.4	2.6
Interest expense	(15.3)	(16.1)
Other miscellaneous uses	<u>-</u>	<u>(1.5)</u>
Total other financing sources (uses)	<u>(13.9)</u>	<u>(15.0)</u>
Change in net assets before transfer to assets held on behalf of ITFA	18.4	0.9
Transfer to assets held on behalf of ITFA	<u>(18.4)</u>	<u>(0.9)</u>
Change in net assets	-	-
Net assets, beginning of year	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ -</u>	<u>\$ -</u>

INDIANA EAST-WEST TOLL ROAD PROJECT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

Analysis of Infrastructure Assets

The State of Indiana's policy is that 85% of lane miles shall be rated in a good or better condition, and that less than 1% of bridges can be rated substandard. In both 2003 and 2004, 100% of the Toll Road Project's lane miles were rated in good or better condition. In both years 100% of the Toll Road Project's bridges were rated in good or better condition, none were rated as substandard.

The condition of the Toll Road Project's infrastructure, primarily the roads and bridges, are a primary factor in determining the financial health of the Toll Road Project. Poorly maintained bridges and roads will deteriorate the customer base as some customers will divert their trips to parallel highways which can provide the customer a safe and smooth ride without paying a toll. Poorly maintained roads and bridges could be an indicator that the Toll Road Project is lax in providing proper maintenance or that there are insufficient revenues to support a proper maintenance program.

Capital Assets and Debt Administration

At the end of fiscal 2004, the Toll Road Project had invested \$259.3 million, net of accumulated depreciation, in a broad range of capital assets, including roads, bridges, land, buildings and equipment. This was an increase of 7.2% over prior year. The increase was due primarily to construction in process of approximately \$8 million for new building projects and \$7 million for new infrastructure projects.

The Toll Road Project has approximately \$24.8 million of restricted cash and investments on hand to fund identified construction projects. There are no current plans to issue additional debt to finance those projects.

Economic and Other Factors

Passenger car revenue continues to grow since 2000, the previous record year for revenues. Substitution of car trips for airline trips since the terrorist attacks of September 11, 2001 may be one cause of that increase. Construction on roads parallel to the Toll Road may also be pushing traffic onto the Toll Road as drivers seek alternative routes.

Commercial revenue, while improving, has not returned to the commercial revenue historical high level posted in 2000. A slow recovering economy and substitution of rail for truck delivery of goods may account for some of the difference. Additionally, the Ohio Turnpike has expressed concern over a reduction in their truck traffic, possibly caused by a recent rate increase. Trucks taking routes to avoid the Ohio Turnpike may continue on those alternative routes rather than returning to the Indiana Toll Road. The speed limit for trucks on the Ohio Turnpike is increasing 10 mph which may bring trucks back to their toll road and also may increase the traffic on the Indiana Toll Road.

INDIANA EAST-WEST TOLL ROAD PROJECT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

Toll Revenue (in millions of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Passenger revenue	\$ 35.3	\$ 34.8	\$ 34.8	\$ 32.7	\$ 32.4
Commercial revenue	\$ 49.6	\$ 47.2	\$ 47.5	\$ 49.2	\$ 52.1

In addition to the overall national economy, the Toll Road Project provides a transportation corridor for two major industries, the steel industry in Northwest Indiana and the recreational vehicle industry in North Central Indiana. As those industries expand or contract, Toll Road Project revenue is affected accordingly.

The Toll Road Project's proximity to Lake Michigan results in occasional severe winters with abnormally high snowfall. A severe winter will cause dramatic increases in operating expenses and decreases in toll revenue.

The bond indenture requires the Toll Road Project to pass a Revenue Demand Test every two years. The Demand Test requires that the projected net revenues for each fiscal year be greater than either the sum of annual maintenance and operating expense plus net debt service requirement plus the major expense requirement, or the sum of annual maintenance and operating expense plus 110% of the net debt service requirement, whichever is larger. The Demand Test provides protection for bondholders as it measures the ability of toll revenues to make the required bond payments and provide for necessary operating and maintenance costs of the Toll Road Project. Failure to pass the Demand Test requires that a new schedule of toll rates be put into effect that will raise the required revenue. The last toll rate increase was authorized in 1985. Fiscal year 2005 is the next year in which the Demand test must be passed.

Contacting the District's Financial Management

This financial report is designed to provide citizens, customers, and investors with a general overview of the Toll Road Project's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District Director, Indiana Toll Road District, P. O. Box 1, Granger, IN 46530.



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS

Indiana East-West Toll Road Project
Indiana Department of Transportation – Toll Road District
Indiana Transportation Finance Authority
Indianapolis, Indiana

We have audited the statements of net assets of the Indiana East-West Toll Road (the Toll Road Project) as of June 30, 2004 and 2003, and the statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Toll Road Project's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Toll Road Project as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2004 on our consideration of the Toll Road Project's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 1 through 8 and the other required supplementary information on pages 28 through 30 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Indianapolis, Indiana
August 26, 2004

INDIANA EAST-WEST TOLL ROAD PROJECT
STATEMENTS OF NET ASSETS
June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 34,413,191	\$ 38,448,997
Investments (Note 3)	73,137,750	64,805,442
Accounts receivable	3,882,340	3,790,371
Inventories	2,153,534	2,043,785
Prepaid expenses	<u>1,475,622</u>	<u>1,150,282</u>
Total current assets	115,062,437	110,238,877
Noncurrent assets		
Restricted cash and investments	78,763,076	91,546,763
Property, buildings and equipment, net (Note 4)	259,250,907	241,832,401
Bond issuance costs, net	<u>1,422,030</u>	<u>1,572,909</u>
Total noncurrent assets	<u>339,436,013</u>	<u>334,952,073</u>
Total assets	<u>\$ 454,498,450</u>	<u>\$ 445,190,950</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 7,131,137	\$ 6,624,073
Accrued salaries and related expenses	<u>2,916,116</u>	<u>2,434,123</u>
	10,047,253	9,058,196
Liabilities payable from restricted assets:		
Accrued interest payable	4,255,042	4,601,655
Current portion of revenue bonds payable (Note 5)	<u>13,025,000</u>	<u>12,380,000</u>
Total current liabilities	27,327,295	26,039,851
Long-term portion of revenue bonds payable (net of discounts and deferred losses of \$8,569,638 and \$11,216,517 in 2004 and 2003) (Note 5)	<u>195,980,362</u>	<u>206,358,483</u>
Assets held on behalf of ITFA:		
Invested in capital assets, net of related debt	51,667,575	24,666,827
Restricted for future debt service	50,564,040	50,456,704
Restricted for transportation improvement	9,404,640	9,404,640
Restricted for construction	104,092,535	117,861,845
Unrestricted	<u>15,462,003</u>	<u>10,402,600</u>
	<u>231,190,793</u>	<u>212,792,616</u>
Total liabilities	454,498,450	445,190,950
Net assets	<u>-</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 454,498,450</u>	<u>\$ 445,190,950</u>

See accompanying notes to financial statements.

INDIANA EAST-WEST TOLL ROAD PROJECT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenues		
Tolls	\$ 85,038,569	\$ 82,053,220
Concession revenues (Note 6)	7,025,369	6,486,407
Other revenues	<u>597,551</u>	<u>477,815</u>
Total operating revenues	92,661,489	89,017,442
Operating expenses		
General administration	2,195,243	1,856,532
Toll collection	9,507,898	8,536,203
Road operations	8,243,953	8,538,460
Administrative services	631,596	562,554
Patron services	79,136	75,808
Information services	1,655,603	1,801,170
Patrol services	3,346,552	3,434,171
Fringe benefits	6,470,897	6,347,053
Major expense repairs and renovations	25,051,743	38,716,083
Depreciation expense	3,094,026	3,099,458
Miscellaneous expenses	<u>107,721</u>	<u>177,957</u>
Total operating expenses	<u>60,384,368</u>	<u>73,145,449</u>
Operating income	32,277,121	15,871,993
Non-operating revenues (expenses)		
Interest and bond amortization expense	(15,312,496)	(16,071,255)
Investment revenue	1,433,553	2,614,562
Transportation grants	-	(1,587,273)
Gain (loss) on sale of fixed assets	<u>-</u>	<u>37,240</u>
	<u>(13,878,944)</u>	<u>(15,006,726)</u>
Change in net assets before transfer of assets held on behalf of ITFA	18,398,177	865,267
Transfer to assets held on behalf of ITFA	<u>(18,398,177)</u>	<u>(865,267)</u>
Change in net assets	-	-
Net assets, beginning of year	-	-
Net assets, end of year	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

INDIANA EAST-WEST TOLL ROAD PROJECT
STATEMENTS OF CASH FLOWS
Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Cash received from tolls	\$ 84,922,798	\$ 81,957,738
Cash received from concessionaires	7,646,722	6,483,101
Cash paid to employees for payroll and benefits	(22,685,583)	(19,986,887)
Cash paid to contractors, suppliers and other services	<u>(34,044,889)</u>	<u>(48,296,575)</u>
Net cash from operating activities	35,839,048	20,157,377
Cash flows from investing activities		
Sales (purchases) of investments	(8,337,986)	(30,281,126)
Proceeds from sale of investments	5,678	-
Investment income	<u>1,427,651</u>	<u>2,614,562</u>
Net cash from investing activities	(6,904,657)	(27,666,564)
Cash flows from capital and related financing activities		
Capital expenditures	(20,512,533)	(6,454,138)
Proceeds from sale of fixed assets	-	83,604
Principal payment on revenue bonds	(12,380,000)	(11,770,000)
Interest paid on revenue bonds	(12,861,351)	(13,533,838)
Transportation grants paid	<u>-</u>	<u>(1,587,273)</u>
Net cash from capital and related financing activities	<u>(45,753,884)</u>	<u>(33,261,645)</u>
Net change in cash and cash equivalents	(16,819,493)	(40,770,832)
Cash and cash equivalents at beginning of year	<u>129,995,760</u>	<u>170,766,592</u>
Cash and cash equivalents at end of year	<u>\$ 113,176,267</u>	<u>\$ 129,995,760</u>
Reconciliation of cash flows from operating activities		
Operating income	\$ 32,277,121	\$ 15,871,993
Adjustments to cash from operating activities:		
Depreciation	3,094,026	3,099,458
Loss (gain) on sale of fixed assets	-	(37,240)
Changes in assets and liabilities:		
Accounts receivable	(91,969)	580,255
Inventories	(109,749)	(180,613)
Prepaid expenses	(325,340)	(237,530)
Accounts payable	512,966	881,149
Accrued salaries and related expenses	481,993	179,905
Net cash from operating activities	<u>\$ 35,839,048</u>	<u>\$ 20,157,377</u>
Cash and cash equivalents at end of year consist of:		
Restricted cash	\$ 78,763,076	\$ 91,546,763
Unrestricted cash	<u>34,413,191</u>	<u>38,448,997</u>
	<u>\$ 113,176,267</u>	<u>\$ 129,995,760</u>

See accompanying notes to financial statements.

INDIANA EAST-WEST TOLL ROAD PROJECT
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Indiana East-West Toll Road Project (Toll Road Project) is the result of an agreement between the Indiana Transportation Finance Authority (ITFA) and the Indiana Department of Transportation (INDOT) to finance and operate the Indiana East-West Toll Road as defined in a lease agreement between the two parties.

The lease agreement between ITFA and INDOT requires that an annual audit of the Toll Road Project shall be conducted and filed with ITFA, the Lease Trustee and Indenture Trustee. The accompanying financial statements report only on the financial activities associated with the Toll Road Project based on defined lease agreement terms. ITFA and INDOT are responsible for reporting their specific ownership interest and operating results in the lease agreement within their respective organization-wide financial statements reported under GASB 14.

ITFA: ITFA, created pursuant to Indiana Code 8-9.5, is the successor to the Indiana Toll Finance Authority, which was created in 1983. ITFA is a body both corporate and politic, and although separate from the state, the exercise by ITFA of its powers constitutes an essential governmental function. ITFA's duties under the statute include:

- Construction, reconstruction, improvement, maintenance, repair and operation of toll roads and toll bridges in the state, as a successor to the Indiana Toll Road Commission and the Indiana Toll Bridge Commission.
- In 1988, the Legislature granted ITFA the additional power to construct, acquire, reconstruct, improve and extend other Indiana highways, bridges, streets and roads.
- In 1991, the General Assembly authorized ITFA, under Indiana Code 8-21-12, to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate.

Any bonds issued by ITFA are special and limited obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power, and any indebtedness incurred by ITFA does not constitute an indebtedness of the state within the meaning or application of any constitutional provision or limitation. ITFA does not hold any funds with regard to the Toll Road Project. A trustee holds all cash and investments and makes related transactions in the name of ITFA. All contracts are entered into and administered by INDOT on behalf of the ITFA.

(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

INDOT: INDOT is a department of the State of Indiana whose mission is to provide customers the best transportation system that enhances mobility, stimulates economic growth, and integrates safety, efficiency and environmental sensitivity. INDOT has jurisdiction over state roads, interstate and US Routes within the State of Indiana.

INDOT is required to manage and operate the Toll Road Project as a unit separate from any other district or division of INDOT. INDOT fulfilled this requirement by establishing the Toll Road District (District). The District is responsible for the construction, maintenance, repair and operation of the Indiana Toll Road (I-80/90) projects within the State of Indiana. Primary operating activities include toll collections, road operation, administration, and toll road management. The District is also charged with formulating, developing and recommending a continuing long-range toll road plan and short-term improvement programs and communicating planning information to the public, interested agencies and organizations. The District has a fiduciary responsibility for the assets of the Toll Road Project. The District is responsible for ensuring that the assets reported in the financial statements are used for their intended purposes.

General Lease Terms of the Toll Road Project: ITFA has entered into a lease agreement with INDOT, which requires INDOT to operate and maintain the Toll Road Project in an efficient and economical manner. INDOT sets and collects tolls and other revenues from the Toll Road Project sufficient to meet the aggregate revenue demand requirement under the lease agreement, which is to provide for operating expenses, major expense fund requirement and payment of base rent to ITFA in an amount which, when added to net investment income on funds held under the Trust Indenture, will provide for payment of debt service on the Series 1985, 1987, 1993 and 1996 Bonds. The base rent will be subject to increase if there is an increase in debt service due to the issuance of additional bonds. After meeting the aggregate revenue demand requirement, any excess revenues collected by INDOT will be paid to ITFA as additional rent.

Revenues from Toll Road Project operations and amounts provided for major expenses and for the payment of rent to ITFA are deposited with the Lease Trustee and administered and disbursed under a lease trust agreement entered into by the ITFA, INDOT and the Lease Trustee. All other funds of the Toll Road Project are held and administered by the Indenture Trustee. The financial statements of the Toll Road Project include the financial condition and operations of the funds maintained by the Lease Trustee and the Indenture Trustee. All bond proceeds, revenues or other cash received must be disbursed for specific purposes in accordance with the trust agreements for the security of the holders of the revenue bonds issued.

(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Measurement Focus, Basis of Accounting and Financial Reporting: The accounting policies of the Toll Road Project conform to accounting principles generally accepted in the United States of America as applicable to governments. All of the activities are accounted for as a single proprietary fund for financial reporting purposes. These funds are used to account for activities (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The government wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Toll Road Project has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting". The Commission has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Use of Estimates in Preparation of Financial Statements: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allocation of Expenses: Operating expenses have been classified based on actual direct expenditures and indirect cost allocations based on actual time, expense, space used or benefit received.

(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Operating and Non-operating Revenues and Expenses: Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services or leasing property. Operating expenses include the cost of providing services, administrative services, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents: Cash and cash equivalents include deposits in financial institutions and short-term investments with original maturities of 60 days or less. Cash and short-term investments at the balance sheet date were entirely insured by the Federal Deposit Insurance Corporation or by the Indiana Public Deposits Insurance Fund.

Restricted Cash and Investments: Cash and investments are restricted by ITFA and INDOT for revenue bond future debt service, transportation improvements and construction.

Trade Accounts Receivable: Operating revenues include income derived from tolls and concession leases. Some users of the Toll Road Project have credit accounts that are billed on a periodic basis. Management considers a reserve for losses on its accounts based on historic loss experience and current economic conditions. Losses are charged off to the reserve when management deems further collection efforts will not produce additional recoveries.

Investments: Investments are recorded at cost, which approximates market. Realized and unrealized gains and losses are included in the statements of activities.

Inventories: Inventories consist of maintenance materials and supplies, signs, salt and fuels, which are stated at the lower of cost (weighted average method) or market.

Property, Buildings and Equipment: Effective July 1, 2001, the Toll Road Project adopted the modified approach for recording infrastructure under GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Under the modified approach, infrastructure assets that are part of a network or subsystem of a network (hereafter, eligible infrastructure assets) are not required to be depreciated. The Toll Road Project has an up-to-date inventory of eligible infrastructure and performs condition assessments of these assets annually. The condition assessment is disclosed as required supplemental information. All expenditures made for those assets (except for additions and improvements) are expensed in the period incurred. Additions and improvements to eligible infrastructure assets are capitalized when those additions or improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets.

(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

The Toll Road Project also capitalizes its buildings and equipment. These assets are recorded at cost. Major additions and improvements are capitalized and depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Bond Discount and Issuance Costs: Bond discount and issuance costs are being amortized using the interest method over the varying terms of the bonds issued.

Assets Held on Behalf of ITFA: This liability account represents the aggregate excess of revenues over expenses over the life of the Toll Road Project because ownership belongs to ITFA. The Toll Road Project amount has been designated into categories that ITFA and INDOT use to track and monitor the utilization of Toll Road Project funds. Some funds are designated by Indiana statute.

NOTE 2 - OPERATION OF FUNDS

Fund Accounting Basis of Presentation: The accounts of the Toll Road Project are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. The Lease and Trust Indenture agreements establish the use of the following funds for the operation of the Toll Road Project:

Lease Revenue Fund: The lease revenue fund is used by the Lease Trustee to pay operating expenses and make transfers to the Indenture Trustee.

Major Expense Fund: The major expense fund is used by the Lease Trustee to pay for major repairs, renovations and equipment purchases.

The Indenture Trustee utilizes the following funds:

Revenue Fund: The revenue fund is a holding account for receipts from the Lease Trustee. The Indenture Trustee makes transfers to the debt service funds and general reserve funds.

(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 2 - OPERATION OF FUNDS (Continued)

Debt Service Fund: The debt service funds are used to make semi-annual interest payments and required principal payments. This fund is also used to build up resources set aside to make up potential future deficiencies in the current debt service account.

General Reserve Fund: The general reserve fund is used to deposit excess revenues to be used in connection with projects and debt service on the outstanding bonds.

Transportation Improvement Fund: The transportation improvement fund is used to pay off-road improvements or real estate developments on Toll Road Project property or to assist in paying the cost of transportation projects by INDOT and other public agencies.

Present Construction Fund: The present construction fund is used to pay costs of construction projects as approved by ITFA.

NOTE 3 - INVESTMENTS

At June 30, 2004 and 2003, investments were as follows:

	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Market Value</u>
2004 U.S. Government Securities	<u>\$ 78,924,614</u>	<u>\$ 78,763,076</u>	<u>\$ 78,763,076</u>
2003 U.S. Government Securities	<u>\$ 64,805,442</u>	<u>\$ 64,805,442</u>	<u>\$ 64,834,629</u>

The Trust Indenture authorizes ITFA to invest in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, commercial paper rated in the highest rating category, tax exempt securities, certificates of deposit, repurchase agreements secured by U.S. government securities, investment agreements with a qualified financial institution and any other obligation rated in one of the two highest rating categories by a rating agency.

All investments are uninsured and unregistered, with securities held by bank trust departments in the Bank's name, which places them in the third category of credit risk as defined by Governmental Accounting Standards Board Statement No. 3.

(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 4 - NET PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment consist of the following at June 30, 2004 and 2003:

	July 1, <u>2003</u>	<u>Additions</u>	<u>Retirements</u>	June 30, <u>2004</u>
Capital assets, not being depreciated				
Infrastructure	\$ 179,834,872	\$ 4,231,402	\$ -	\$ 184,066,274
Land and improvements	<u>28,212,911</u>	<u>6,417</u>	<u>-</u>	<u>28,219,328</u>
Total capital assets, not being depreciated	208,047,783	4,237,819	-	212,285,602
Construction in process	3,447,246	7,835,600	-	11,282,846
Capital assets, being depreciated				
Buildings and improvements	58,607,663	5,213,508	-	63,821,171
Office equipment	3,097,473	841,366	-	3,938,839
Toll collection equipment	10,192,234	922,445	-	11,114,679
Telecommunications equipment	4,652,095	-	-	4,652,095
Vehicles and miscellaneous equipment	<u>15,269,141</u>	<u>1,461,794</u>	<u>-</u>	<u>16,730,935</u>
	91,818,606	8,439,113	-	100,257,719
Less: Accumulated depreciation for:				
Buildings and improvements	37,659,609	1,165,655	-	38,825,264
Office equipment	2,229,944	462,055	-	2,691,999
Toll collection equipment	7,719,941	525,910	-	8,245,851
Telecommunications equipment	2,979,762	93,901	-	3,073,663
Vehicles and miscellaneous equipment	<u>10,891,978</u>	<u>846,505</u>	<u>-</u>	<u>11,738,483</u>
Total accumulated depreciation	<u>61,481,234</u>	<u>3,094,026</u>	<u>-</u>	<u>64,575,260</u>
Net capital assets, being depreciated	<u>30,337,372</u>	<u>5,345,087</u>	<u>-</u>	<u>35,682,459</u>
Total capital assets - net	<u>\$ 241,832,401</u>	<u>\$ 17,418,506</u>	<u>\$ -</u>	<u>\$ 259,250,907</u>

(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 4 - NET PROPERTY, BUILDINGS AND EQUIPMENT (Continued)

	July 1, <u>2002</u>	<u>Additions</u>	<u>Retirements</u>	June 30, <u>2003</u>
Capital assets, not being depreciated				
Infrastructure	\$ 179,834,872	\$ -	\$ -	\$ 179,834,872
Land and improvements	<u>28,212,911</u>	<u>-</u>	<u>-</u>	<u>28,212,911</u>
Total capital assets, not being depreciated	208,047,783	-	-	208,047,783
Construction in process	-	3,447,246	-	3,447,246
Capital assets, being depreciated				
Buildings and improvements	58,607,663	-	-	58,607,663
Office equipment	3,325,365	81,256	309,148	3,097,473
Toll collection equipment	10,311,324	51,330	170,420	10,192,234
Telecommunications equipment	3,558,989	1,164,789	71,683	4,652,095
Vehicles and miscellaneous equipment	<u>14,056,318</u>	<u>1,709,517</u>	<u>496,694</u>	<u>15,269,141</u>
	89,859,659	3,006,892	1,047,945	91,818,606
Less: Accumulated depreciation for:				
Buildings and improvements	36,387,946	1,271,663	-	37,659,609
Office equipment	2,209,745	325,651	305,452	2,229,944
Toll collection equipment	7,452,541	437,820	170,420	7,719,941
Telecommunications equipment	2,958,907	93,173	72,318	2,979,762
Vehicles and miscellaneous equipment	<u>10,411,457</u>	<u>971,151</u>	<u>490,630</u>	<u>10,891,978</u>
Total accumulated depreciation	<u>59,420,596</u>	<u>3,099,458</u>	<u>1,038,820</u>	<u>61,481,234</u>
Net capital assets, being depreciated	<u>30,439,063</u>	<u>(92,566)</u>	<u>9,125</u>	<u>30,337,372</u>
Total capital assets – net	<u>\$ 238,486,846</u>	<u>\$ 3,354,680</u>	<u>\$ 9,125</u>	<u>\$ 241,832,401</u>

(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 5 - REVENUE BONDS PAYABLE

Long-term liability activity for the year ended June 30, 2004 and 2003 was as follows:

	<u>July 1, 2003</u>	<u>Increases *</u>	<u>Reductions</u>	<u>June 30, 2004</u>	<u>Amounts Due Within One Year</u>
Series 1985	\$ 26,200,000	\$ -	\$ -	\$ 26,200,000	\$ -
Series 1987	43,114,015	77,346	-	43,191,361	-
Series 1993	26,200,438	-	8,219,751	17,980,687	10,010,000
Series 1996	<u>123,224,030</u>	<u>-</u>	<u>1,590,716</u>	<u>121,633,314</u>	<u>3,015,000</u>
	<u>\$ 218,738,483</u>	<u>\$ 77,346</u>	<u>\$ 9,810,467</u>	<u>\$ 209,005,362</u>	<u>\$ 13,025,000</u>

	<u>July 1, 2002</u>	<u>Increases *</u>	<u>Reductions</u>	<u>June 30, 2003</u>	<u>Amounts Due Within One Year</u>
Series 1985	\$ 26,200,000	\$ -	\$ -	\$ 26,200,000	\$ -
Series 1987	43,041,106	72,909	-	43,114,015	-
Series 1993	33,940,133	-	7,739,695	26,200,438	9,515,000
Series 1996	<u>124,615,510</u>	<u>-</u>	<u>1,391,480</u>	<u>123,224,030</u>	<u>2,865,000</u>
	<u>\$ 227,796,749</u>	<u>\$ 72,909</u>	<u>\$ 9,131,175</u>	<u>\$ 218,738,483</u>	<u>\$ 12,380,000</u>

Summary of Long-Term Debt:

	<u>Interest Rates Range</u>	<u>Maturity Range</u>	<u>Annual Payment Range</u>	<u>2003 Amount</u>	<u>2004 Amount</u>
Long-Term Debt	3.9%-9.5%	2004-2016	\$ 13,025,000 26,200,000	<u>\$ 218,738,483</u>	<u>\$ 209,005,362</u>

* Amortization of original bond discount.

(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 5 - REVENUE BONDS PAYABLE (Continued)

Debt Service Requirements to Maturity (Revenue Bonds, Notes Payable and Other):

<u>Year ending June 30,</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 13,025,000	\$ 12,128,962	\$ 25,153,962
2006	13,745,000	11,335,982	25,080,982
2007	14,505,000	10,457,363	24,962,363
2008	15,390,000	9,485,775	24,875,775
2009	16,330,000	8,546,731	24,876,731
2010-2014	95,605,000	27,998,281	123,603,281
2015-2015	<u>48,975,000</u>	<u>2,927,375</u>	<u>51,902,375</u>
	<u>\$ 217,575,000</u>	<u>\$ 82,880,469</u>	<u>\$ 300,455,469</u>

Interest payments on the Series 1985, 1987, 1993 and 1996 bonds are due semi-annually on January 1 and July 1.

Series 1985 Bonds: During September 1985, ITFA issued \$256,970,000 of Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1985 (Series 1985 Bonds), for the refunding of the outstanding portion of the \$259,500,000 Indiana Toll Road Commission East-West Toll Road Revenue Bonds, 1980 Series (Series 1980 Bonds). The Series 1985 Bonds are secured by the renewable lease between the ITFA and INDOT.

The Series 1980 Bonds are not reported as a debt of ITFA since repayment of principal and interest will be from escrowed funds and earnings. At June 30, 2004 and 2003, the principal amount of the Series 1980 Bonds outstanding, which have been defeased in substance, total \$107,965,000.

Series 1993 Bonds: During October 1993, ITFA issued \$76,075,000 of Indiana Transportation Finance Authority Taxable Toll Road Lease Revenue Refunding Bonds, Series 1993 (Series 1993 Bonds) to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of a portion of the outstanding Indiana Transportation Finance Authority Taxable Toll Road Lease Revenue Refunding Bonds, Series 1985. The Series 1993 Bonds are secured by the renewable lease between ITFA and INDOT.

(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 5 - REVENUE BONDS PAYABLE (Continued)

As a result, the refunded portion of the Series 1985 Bonds are not reported as a debt of the ITFA since repayment of principal and interest will be from escrowed funds and earnings. The advance refunding of the Series 1985 Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$14,217,496. This difference is being charged to interest expense in the amount of \$1,210,000 through the year 2005 using the straight-line method. Accordingly, \$1,210,000 and \$2,420,000 for the periods ended June 30, 2004 and 2003 has been reported in the accompanying financial statements as a deduction from bonds payable. This advance refunding was undertaken to reduce total debt service payments over the next 11 years by \$9,562,692 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$7,144,850.

Series 1996 Bonds: During October 1996, ITFA issued \$134,795,000 of Indiana Transportation Finance Authority Toll Road Lease Revenue Refunding Bonds, Series 1996 (Series 1996 Bonds), to refund a portion of the Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1987. Proceeds from the sale of the Series 1996 Bonds were used to purchase assets placed in an irrevocable trust that will be used to pay principal and interest on the Series 1987 Bonds when due. The Series 1996 Bonds are secured by the renewable lease between ITFA and INDOT.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$15,496,599. The difference is being charged to interest expense in the amount of \$1,186,431 and \$1,250,895 for the years ended June 30, 2004 and 2003, respectively, using the effective interest rate method over the life of the bond. Accordingly \$4,521,852 and \$5,708,282 for the years ended June 30, 2004 and 2003 has been reported in the accompanying financial statements as a deduction from bonds payable. This advance refunding was undertaken to reduce total debt service payments over the next 16 years by \$8,076,281 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$4,721,698.

At June 30, 2004 and 2003, the ITFA was in compliance with all material requirements and restrictions contained in the Trust Indentures.

NOTE 6 - CONCESSION REVENUES

Concession revenues arise from lease contracts entered into with vendors for the operation of the restaurants and motor fuel vending service stations on the Toll Road Project. The operators pay rentals based on a percentage of gross revenues or guaranteed rent, as defined in the respective contracts.

(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 7 - EMPLOYEE PENSION PLAN – PUBLIC EMPLOYEES' RETIREMENT FUND

Plan Description and Provisions: INDOT, on behalf of the District employees, contributes to the Public Employees' Retirement Fund (PERF), an agent multiple-employer public employee retirement system which acts as a common investment and administrative agent for state employees and employees of the various subdivisions of the State of Indiana. Payroll for employees covered by the plan for the year ended June 30, 2004 and 2003, was \$13,629,472 and \$13,464,660. The total payroll for the same period was \$16,696,679 and \$15,581,810.

All full-time District employees are eligible to participate in this defined benefit plan. State statutes (Indiana Code 5-10.2 and 5-10.3) give INDOT the right to contribute and govern most requirements of the system, including the benefits that vest after ten years of service. Employees who have reached sixty years of age may receive retirement benefits with fifteen years of service. An employee may receive benefits at age sixty-five with ten years of service.

Employees are required to contribute 3% of compensation to an annuity savings account. Legislation permits a PERF employer to make the employee contributions on behalf of the employee. INDOT has elected to pay their employees' 3% contribution as a part of a wage adjustment. These accumulated employee contributions and allocated interest income are maintained by PERF in a separate system wide fund for all members. Upon retirement, members may elect a lump sum distribution of all or part of the savings account. Employees who leave employment before qualifying for benefits receive a refund of this savings account.

Since employees may receive a refund of this savings account, and the employer financed pension is not affected by it, the corresponding information for the savings account is not included in the determination of the pension benefit obligation or related funding and has not been included in the following presentations.

All assets of the plan are held and invested by PERF. Investments are mainly in obligations of the U.S. Government, federal agencies, and corporate bonds.

Funding Policy: PERF's funding policy provides for actuarially determined periodic contributions at rates that for individual employers increase gradually over time so that sufficient assets will be available to pay benefits when due. The rate for the District employee group as a whole has tended to remain level as a percentage of annual covered payroll. The entry age normal cost method is used to determine the contribution requirements and the actuarial accrued liability.

The annual contribution to PERF is determined as part of the July 1, 2001 actuarial valuation and consists of the amortization of the unfunded actuarial accrued liability (expressed as a level dollar amount), plus the entry age normal cost (expressed as a percentage of total payroll).

(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 7 - EMPLOYEE PENSION PLAN – PUBLIC EMPLOYEES' RETIREMENT FUND
(Continued)

The actuarial assumptions include (a) 7.25% investment rate of return, (b) projected salary increases of 5% per year, and (c) 2% per year cost-of-living adjustments. The amortization of the unfunded actuarial accrued liability is the level dollar payment necessary to amortize the unfunded actuarial accrued liability. The initial liability is being amortized over a forty-year period; subsequent changes in liability are being amortized forty years from the date of change, with the exception that changes in liabilities due to cost of living adjustments are being amortized over fifteen years. The entry age normal cost is determined on an individual basis and then increased proportionally to account for PERF operational expenses.

Schedule of Employer Contributions
(In thousands of dollars)

Valuation Date	Annual Required Contributions	Actual Employer Contributions	Net Pension Obligation	Net Percentage Contributed
7/1/03	\$ 687.6	\$ 618.4	\$ (743.1)	89%
7/1/02	\$ 517.4	\$ 669.1	\$ (812.3)	129%
7/1/01	\$ 431.0	\$ 766.2	\$ (660.8)	178%

The contributions to PERF were in accordance with actuarially determined requirements computed through an actuarial valuation performed as of July 1, 2001. The contribution consisted entirely of normal cost (5.0% of current covered payroll for 2004 and 2003). INDOT made all contributions for the plan.

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Historical funding information of the system may be found in the Annual Report of the Indiana Public Employees' Retirement Fund.

**Schedule of Funding Progress of Toll Road Project's Participation
in the Public Employees Retirement Fund (PERF)**
(In thousands of dollars)

Actuarial Valuation Date	Non retired Valuation Assets	Actuarial Accrued Liability AAL	Excess of Assets Over (Unfunded) AAL	Funded Ratio	Covered Payroll	Unfunded liability as a Percentage of Payroll
7/1/03	\$ 16,284	\$ 14,570	\$ 1,714	112.0%	\$ 12,848	0%
7/1/02	\$ 16,622	\$ 16,412	\$ 210	101.0%	\$ 13,465	0%
7/1/01	\$ 17,489	\$ 14,575	\$ 2,913	120.0%	\$ 13,629	0%

(Continued)

INDIANA EAST-WEST TOLL ROAD PROJECT
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 7 - EMPLOYEE PENSION PLAN - PUBLIC EMPLOYEES' RETIREMENT FUND
(Continued)

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and assets in excess of the pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the funding status on a going-concern basis. Analysis of this percentage over time indicates whether INDOT's participation in PERF is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in assets in excess of the pension benefit obligation and annual covered payroll are both affected by inflation.

Expressing the assets in excess of the pension benefit obligation as a percentage of annual covered payroll approximately adjusts for effects of inflation and aids analysis of the Toll Road Project's progress made in accumulating sufficient assets to pay benefits when due. Generally, the larger this percentage the stronger the plan.

Certain ten-year historical trend information relative to the defined benefit plan as required by Governmental Accounting Standards Board Statement No. 5 is available for the multi-employer plan in the PERF report.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

At June 30, 2004 and 2003, the Toll Road Project had contractual commitments for various Major Expense Fund projects, primarily the purchase of property, plant and equipment, aggregating to \$15,969,768 and \$11,421,206.

The Toll Road Project periodically makes Transportation Improvement Fund (TIF) grants to various cities and counties adjoining the Toll Road Project. At June 30, 2004 and 2003, TIF grants to fund projects that have not yet been expended totaled \$9,560,000.

The nature of the Toll Road Project's operations sometimes subjects the Toll Road Project to litigation resulting from concession activities and traffic accidents for which the General Counsel for the Toll Road Project is of the opinion that ultimate settlement of such claims in excess of insurance coverage will not result in a material adverse effect on the Toll Road Project's financial statements as of June 30, 2004 and 2003.

REQUIRED SUPPLEMENTAL INFORMATION

INDIANA EAST-WEST TOLL ROAD PROJECT
REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2004

CONDITION RATING OF THE TOLL ROAD PROJECT'S HIGHWAYS AND BRIDGES

Roads

	<u>Percentage of Lane Miles in Good or Better Condition</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Interstate Roads	100%	100%	100%

	<u>Percentage of Lane Miles in Substandard Condition</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Interstate Roads	-0-%	-0-%	-0-%

The condition of road pavement is measured using a pavement quality index (PQI), which is based on a weighted average of six distress factors found in pavement surfaces. The PQI uses a measurement scale that is based on a condition index ranging from zero for a failed pavement to 100 for a pavement in perfect condition. The condition index is used to classify roads in good or better condition (70-100), fair condition (50-69), substandard condition (less than 50). It is the State's policy to maintain at least 85% of its road system at a good or better condition level. No more than 10% should be in substandard condition. Condition assessments are determined every year.

Bridges

	<u>Percentage of Bridges in Good or Better Condition</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Interstate Bridges	100%	100%	100%

	<u>Percentage of Bridges in Substandard Condition</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Interstate Bridges	-0-%	-0-%	-0-%

The condition of the State's bridges is determined using its Bridge Management and Inspection Program (BMIP). The bridge condition rating, which is a weighted average of an assessment of the ability of individual components to function structurally, uses a numerical condition scale ranging from 1.0 (impaired or load restricted) to a 7.0 (new). It is the State's policy to keep the number and square footage of deck area of bridges with a condition rating of 1.0 to 1.9 below 1%. All bridges are inspected every two years.

INDIANA EAST-WEST TOLL ROAD PROJECT
REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2004

BREAKDOWN OF REVENUES

Program revenues	
Charges for services	\$ 92,661,489
General revenues	
Investment revenues	<u>1,433,553</u>
Total operating and non-operating revenues	<u>\$ 94,095,042</u>



Crowe Chizek and Company LLC
Member Horwath International

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Indiana East-West Toll Road Project
Indiana Department of Transportation – Toll Road District
Indiana Transportation Finance Authority
Indianapolis, Indiana

We have audited the financial statements of Indiana East – West Toll Road Project (the Toll Road Project) as of and for the year ended June 30, 2004, and have issued our report thereon dated August 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Toll Road Project's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We performed tests of the money received by INDOT, ITFA, the Indenture Trustee, and the Lease Trustee to determine if they have been applied in accordance with the provisions of this Lease, the Lease Trustee Agreement, and the Indenture. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Toll Road Project's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the ITFA, INDOT, Indiana State Board of Accounts, and the Toll Road Project's management and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Indianapolis, Indiana
August 26, 2004